**NCUA**

**Dallas Town Hall 10-08-2010**

Chairman Debbie Matz: [Audio begins mid-sentence]… We have to make absolutely certain that the payment systems continue because that really is the underpinning of the credit union system. And it preserves the confidence of the credit union system, that there has been no interruption of service and there will be no interruption of service.

We also had, and this probably the most difficult thing, to isolate what we have been calling the Legacy Assets which are the mortgage-backed securities that have lost their value when the market plummeted. We had to isolate these legacy assets at the lowest long-term costs consistent with sound public policy. And we feel that we have done that by getting Secretary Geithner to agree to extend the term of the Corporate Stabilization Fund so that it ends in 2021 instead of 2016. It will give us that many more years to make the assessments so that the assessments can be smaller each year. And Larry and Scott are going to talk more about that.

And the other thing was that we had to develop a system that facilitated an orderly transition to a new regulatory regime for corporates which would allow the consumer credit unions to exercise real choice. At the same time we had to revise our corporate rule. One of the reasons that this situation developed was because the corporate rule that was amended in 2002 was so flawed. And so this new rule addresses those flaws and creates more rigor in our capital requirements, in the asset liability management, in risk concentration standards and in governance for the corporates. So whichever corporates remain and go forward will operate in a framework of safety and soundness so that these issues will never erupt again.

We came to the conclusion early on that the status quo was not an option. I know we have gotten asked a lot why didn't you just leave things the way they were, things were working pretty well, once we conserved US Central and WesCorp. But the fact of the matter is that these corporates were not viable without massive amounts of government assistance.

Right off the bat there was the share guarantee so that any credit unions that had money in corporates had their funds guaranteed because we didn't want the funds pulled out and the liquidity crisis continued. That is an enormous prompt and so we couldn't just continue as is when these institutions were not viable on their own. So we had to come up with a solution. And I just want to remind you that that government, that that share guarantee is still in effect and will be in effect for another couple of years. So don't feel like your funds are in jeopardy. They are as safe now as they have always been.

But we feel that now credit unions can make a strategic business decision about how to get the services that you need and what works for your particular credit union. We entered into this process of resolving the problems by having three phases. The first phase was the stabilization phase. And that was before I came onto the Board. The former Board Members led by Chairman Fryzel put in place the share guarantee and other tools to stabilize the system so that, literally, so that the system would not crash. And Larry will explain to you the significance of that because I am not exaggerating to say that the existence of the credit union system was literally at stake at that time. And if those things hadn't been put in place we probably wouldn't have a credit union system today.

So the stabilization was the first thing that had to be done. Once that was done, we needed to have a resolution phase. And the resolution phase is pretty much what we are in now, resolution and reform, and the reform is the amendments – the changes to the corporate rule which we announced two weeks ago.

But in order to really follow through on the resolution and to isolate the legacy assets, we are going to be setting up what we call a good bank and a bad bank. And you are going to hear a lot more about this, but just overall, the so-called bad bank is going to assume all of the legacy assets.

The good bank is known as a Bridge Corporate. So when you hear about a Bridge Corporate, that is what we are talking about. We have already created two Bridge Corporates; one for WesCorp and one for US Central. And they were created as of

October 1st. I know many of you might not know about it. That was the point. We wanted to be totally invisible because it is really business-as-usual.

We will be creating Bridge Corporates for Members United and Southwest in the next few weeks. The Bridge Corporates will assume the good assets and continue to provide the services just as they had before. As far as Constitution, we are looking for a merger partner for Constitution so we can do a purchase and assumption.

The next step is that the legacy assets are going to be securitized and sold with a government guarantee. Now that doesn't mean that we are selling the assets. We are holding the assets in the bad bank but we are securitizing the cash outflow from those assets and we are putting a government wrap on it and they will be issued in the securities market. They will be available to credit unions, so if you think it is something that fits with your business model and you are interested in purchasing it, we didn't want credit unions to sort of get mixed in with all of the really large purchases. So we have arrangements with ISI which is a CUSO of US Central and they are available to answer any questions that you might have. We are not allowed to market these securities in any way. So we really can't answer your questions about it. But they can. Or your broker can.

But starting next week – the end of next week, we are going to be issuing the first batch of these securities and again, since they are government-guaranteed for some of you it might work in terms of what you need for balancing your portfolio.

Another point I wanted to emphasize is that credit unions don't have to make a decision immediately. The Bridge Corporates will operate for 24 months. So you have two years to decide how to proceed. And this is such a big decision. I think you really should not do anything hastily. There will be opportunities to talk with your peers. And Diane Addington is here. I don't know if you know her, but she was good enough to join us today and as you know she is the CEO at – what are we calling it now – the Southwest Corporate I guess it still is. But it will be a Bridge soon. And she will be happy to answer any of your questions as well.

But there will be several options for you. Credit unions can switch to another corporate. You can charter a new corporate. You can get together and purchase one of the existing Bridge Corporates. Or another possibility is to get your services somewhere else out of the credit union system. But, all of the other corporates, based on current conditions, are financially viable. And so I think that is an important message for all of you to know.

We have had a lot of feedback as we did our town halls last time and one concern that kept erupting from people is what if our estimates are wrong and that the losses aren't as bad as we say they are going to be? People felt that that was an issue that they might not be entitled – the credit unions might not be entitled to get any of their capital back.

Well we really don't think that it is going to be an issue because we feel pretty confident that the losses are losses and that we haven't estimated wrong. But, we understand the concern and we like to always hold out hope. So, we are going to be issuing claim receipts to anyone whose capital has been depleted at a corporate. And if there is wonderful news and at the end of ten years it turns out that our estimates were wrong, and there is capital, that capital will be returned to the credit unions.

We know that you have all been very patient in the process of resolving the corporate crisis; has really tested everyone's ingenuity. But, once the credit union community has collectively made its decision about the future of the corporate system, America's corporates can again turn their undivided attention to doing what they do best – which is serving your members. And an important achievement has been obscured amid the turmoil of the past two years. Credit unions have earned the trust of more than 90 million account holders and more consumers are entrusting their money to credit unions every day.

In fact, for all of the difficulties with the corporates, consumer confidence in credit unions has gone up through this financial crisis, more so than in any other part of America's financial services sector. So by resolving the corporate crisis, credit unions can look forward, I believe, to a new era of growth. Well managed credit unions will be positioned to serve even more consumers who are seeking safe and affordable financial services. And to this end, you have my commitment to continue transparency as we transition from stabilization to resolution to reform.

Our website, www.ncua.gov has a new corporates system resolution page. It contains, I think, everything you possibly could want to know about the corporate resolution. Again, we have sent DVDs to all of you. We are available to answer your questions. We want to hear from you. And I'm going to turn it over now to Scott. He is going to open up the presentation. But again, please ask questions; don't wait until the end. And remember, just get up if you feel the need to have a refreshment or to stretch. We are not going to take a break. So thank you again for joining us and I'm going to turn it over to Scott.

[Applause]

Scott Hunt: That's for you, isn't it? Good afternoon. Thank you for taking the time out of your day to come here and sit in front of NCUA. Hopefully by the time we leave here, in about three hours or so, you will feel pretty good. You have gotten your questions answered and you more thoroughly understand the three aspects of our resolution strategy. And I'm going to begin with the first part and just talk about the corporate rule.

The Board set forth a charter that when we come out of this – there is a lot to be done, but when we come out of this we need to set forth a strong regulatory framework that gives confidence in all of you and other members of corporates, to do business with corporates either again, anew, and possibly for some of you, you won't. But we believe there are corporates out there that can continue to provide ongoing service to members. And when they do, we need to create this framework of "Never Again."

We can never say that there won't be new risks; that is just fallacy. And there is no way that I can stand up in front of you and say that. But we do believe we have spent innumerable hours, consulted with many – and obviously the comment letters that came in which were over 2,500 pages in length. We have reached out to outside consultants. And we believe now we have a regulatory framework, not only good for today and just addressing today's risk, but that can move forward. And when the next set of risks evolves, we have got that framework to protect the capital holders, protect certainly the insurance fund from the catastrophic losses that have occurred.

The purpose is to provide some measure of flexibility, because you can't eliminate risk. If you eliminate risk you don't have an entity. There always will be risk in any ongoing institution. But we want to curtail the catastrophic risk for sure, and prevent the unacceptable risk.

If you tighten things too much you inhibit flexibility, you inhibit member service. You inhibit the ability to move forward, and you will die on the vine. So we believe while the rule is certainly more robust than the prior versions, if nothing else the sheer weight of it is now well over 250 pages when it may have been 40 in total before. But we believe underneath that there is room for a viable corporate business model. Corporate may not look the same as it does today or did a year or two ago, but we believe there is a flexibility in there to adapt to the rules, build investments, build services that not only comply with the capital restraints, the flexibility of concentration risk, but that they can return a value proposition to all of you that want to do business with a corporate.

I'm not here to make you experts in 704, that is certainly not the purpose of today. But I do need to go over certain key tenants of what we tried to do. The first is a more robust capital regime. We introduced PCA. It is a concept you are all well familiar with in Natural Person Credit Unions, but it didn't exist for corporates. So we will introduce the PCA regime.

We will break it out into BASEL, the requirements that very much mirror the BASEL requirements of large banks – BASEL I – those of you that are familiar. So we have a risk-based capital regime as well as you will have the specific leverage benchmarks. And then we will also build out how those benchmarks are hit with a combination not only of contributed capital but retained earnings. There is a heavy emphasis on building retained earnings, much greater than there was before. Because as we have all come to see, you need that retained earnings buffer so that the contributed capital is not at immediate risk of impairment.

Important to know, and we will get into this sort of on the backend of the conversation as far as moving forward with corporates. Many provisions are staggered in over time. In general the rule will go into effect 90 days after publishing in the federal register. And I learned this morning that it looks like it is going to be published October 20. So 90 days from October 20 will be when the general framework will become effective. But capital one specifically will not take place for one year after it is published. So next October 20 will be the bogey that the corporates will have to meet under the new capital standards.

Capital itself would never have protected the catastrophic losses. If we had just addressed the capital regime it wouldn't have saved where we are today. So the next certainly important piece was investments and ALM. And we believe we provided an approach here which still permits the investment officers, the compliance officers, the other leadership team within the entity to create an investment structure unique to its purposes, the flexibility that all portfolios need not look alike, but certainly foremost we prevent that exposure to catastrophic loss. Most importantly we have introduced concentration risk elements as far as by single obligor and by sector. There are going to be hurdles to jump and how they are going to have to allocate their investments.

There is an outright prohibition of some of the investments that got us to where we are today. Most notably the privately-issued mortgage-backed securities are prohibited as well as subordinated positions in bonds. Those two together is especially why West Corps as a whole became so deep at a $5 billion deficit. So they are off the table.

There are also a few others such as CDOs, Collateralized Debt Obligations and Net Interest Margin Securities, NIMS they are commonly referred to, are now off the table as well. They are outright prohibited.

Within this structure we are also trying to keep the balance sheet, or at least the asset side, relatively short. As the Chairman already mentioned, one of the key principles we believe, the delivery of services for a corporate is payments. Payments and liquidity. That does not speak to a balance sheet that needs to be laden with 10-year assets. So the investment portfolio and the loan portfolio, in the aggregate, must have a two-year weighted average life of two years or less.

I think I actually repeated myself,  a two-year weighted average life of two years or less. But it is two years, and that is on average.

Now to be fair, it can go out longer.  It doesn't say each and every investment and each and every loan need to capped at two years.  But overall that portfolio must be kept shorter.  It just speaks to, again, encouraging a more highly marketable portfolio, again supporting the crucial nature of payment services and liquidity.

Credit ratings will still be part of the equation.  At some point under Dodd-Frank will have to extricate ourselves from that.  The whole financial services industry is under that obligation.  But for what we have now, the way we build that in is instead of being an inclusive model, under the old rule was if it was AAA by a single NRSRO, it is good to go.  Now we are saying is you look at all the NRSROs, and most of your portfolio has to have at least two ratings.  And if any of them are below the AA, you can't purchase it. So you can't shop.  You can't try to shop for the one that says it is permissible knowing that two others may disagree.

So besides the concentration, the outright prohibition of keeping a shorter book, I think in the general sense we keep a much highly liquid, marketable and a higher quality portfolio.  That was our goal.

CUSO activities.  We have addressed that we believe there may be some impetus by the industry to say if we are not comfortable doing business with a corporate specifically, perhaps we should do so in a corporate CUSO.  We have made some additions there which more or less just grants us the rights which we have already enjoyed as far as looking at books, records, personnel.  The one thing we do not have is direct oversight of any CUSO activity.  We just don't possess that right now.  That would take statutory changes to get that.  And we may explore that.  But the other caveat is the NCUA, actually they have just delegated to my office the ability to approve CUSO activities.  And I just want to be clear what that means.

Essentially what we are trying to do is say what activities themselves should be or are okay – acceptable to be placed into a CUSO framework. We have already pre-approved investment advisory and brokerage services. Part of the reasons why is because they have significant oversight already either by SEC or other state regulations so we are comfortable that activity will be monitored even though we don't have direct oversight. And it will be along those lines as corporates approach us for other activities, we will be looking at it.

And once it is approved, all other corporate CUSOs can then enjoy that activity without having to apply to NCUA. And over the next six months we envision that the corporates will be coming to my office for approval and we are going to expeditiously work on getting them up. They will be publicly posted. Everybody will see what is an acceptable service.

And lastly governance. Largely this area remained unchanged from the initial proposal with one exception, I think was very well received, is we eliminated the term limits. We realize it takes time to understand the activities of a corporate – especially if you are in that leadership role and especially as you are developing the officers and six years may not be sufficient time, so we eliminated that. But the other provisions of governance, the positions that must be held to serve on the boards such as CEO/CFO/COO or a Manager / Treasurer – sometimes those terms are used for smaller credit unions. That will stay. And also full disclosure of compensation to officials.

And I think you will find in the rule it is very broadly defined as far as it is not just cash compensation or bonuses but also memberships and the like, 457 plans, car allowances – all of that will be expected to be disclosed to the members so that the members better understand the competing interest possibly of what they are paying their leadership team and how they are steering the corporate going forward.

The CEO's salary must always be disclosed. And depending on the size of the corporate, up to 5 of the top 5 individuals will be disclosed.

Important, I think this caught a lot of attention, was the ability to achieve sufficient income. And one of the specific items in there was there was a cash flow mismatch test. The asset side versus a liability side, how the actual principal cash flows line up. That test we determined, first of all would not have really reduced risk on the corporate balance sheet and it would have provided compliance impediments. And so therefore by the other angles of actually prohibiting privately issued mortgage-backed securities, we no longer needed this test. What I have heard is this has been very favorably received by the corporates and the elimination of this test and others that have introduced – they think it is a framework from which they can generate the sufficient earnings to hit our retained earnings targets.

We have already discussed the outright prohibition of the subordinated securities. There will be some additional rules that we will have to introduce in November. Through the scope of the rulemaking process, these didn't have a – I will say – direct nexus to what we were asking for comment and therefore it was improper for us to embed them in the current rule. But in November our Board will be entertaining several provisions. Some coming from the Dodd-Frank Act where you have to establish a risk committee, a risk governance committee. There will also be rules governing how many corporates a member can belong to, a credit union can belong to. They will be addressing provisions for those entities that are not federally -insured. Since we don't have a right to actually ask them to pay the bills to the insurance fund, they are not part of it, but we will be addressing provisions in there where the membership may take votes if that is proper for their corporate to serve such members. All of this will be fully presented in the November Board Meeting, will go out for a comment period just like we did, and then it will be implemented sometime in 2011 as I imagine.

The implementation issues – really there are two. One, there are some assets out there, we have taken the legacy assets as Larry will go into detail, of over 90% in the corporates will be involved through the conservatorships and through the securitization. But there are corporates out there that have some exposure to private label mortgage-backed securities where they will have some exposure in other investments that may not fit, like the two-year weighted-average life. So they are going to have to work with my office and we are going to have to determine the best reasonable actions – do they outright sell them, is it to hold them, shorten up the other end of the portfolio, and we will have to work through that process.

The other, quite frankly, involves you and we are going to talk more about this in the end, but it is that capital target. In one year they are expected to hit 4% capital, capital being the combination of retained earnings, perpetual capital and membership capital. They have to hit that target. And corporates are either near that target and perhaps they can earn their way in, corporates may have a balance sheet that doesn't really suit their size but because they are supporting the share guarantee they have inflated liquidity and they are too large for their size. They may actually shrink down. Lesser assets requires lesser capital. They may shrink into the 4%.

But lastly there are going to be corporates that are going to be reaching out to some of their members and they are going to say the only way if you want to continue ownership of this corporate, we need additional capital contributions. We can't get there through size reduction and we can't get there through earnings. And over the next year we have laid out a timeline, we are working with these corporates where they are going to have to develop strategic plans, they are going to have to reach out to members, and they are going to have to see if they have the support so that they can get there by next October 20. We will discuss that in a little bit more detail towards the end of the presentation.

I have already mentioned the effective dates. There are series of staggered effective dates. I don't think it is worth covering in this venue right now but we have put it into the rule itself. There is a distinct page and it goes through the 9 or 10 different buckets of effective dates. Most notable is capital. There is different qualifications for capital at different times. If you want to familiarize yourself, there are dates on the specific page because we know it can get a little bit cumbersome.

So with that, that was sort of my short summary of 704 and I think we want to – you want to move on – unless there are any questions now on 704, otherwise we can move on to the Legacy Asset Solution. Are there any specific questions on the rule itself?

Rod Taylor: Hi, Rod Taylor from Barksdale Federal Credit Union. If, for whatever reason, after a year the capital plan doesn't pan out, what happens to those credit unions who have put capital into the credit union again?

Scott Hunt: If I may, that is a question I am going to specifically going to address later in the presentation as we talk about how those, I call them the other 22 corporates. We have five in conservatorship or bridge now, and the other 22 we had specific question I want to give more context to later if you don't mind.

Well, with that, no delay, I will introduce Larry Fazio our Deputy Executive Director.

Larry Fazio: Thank you, Scott. Can everyone hear me okay? Good afternoon. I get the fun job of talking about the Legacy Assets and the losses that are associated with them. So, bear with me, please. But before we do that, I think it is important. And the Chairman touched on these in her opening remarks, but I do think it is important to have an understanding of the guiding principles, the underlying framework that we had as we went through this entire crisis at NCUA.

And these principles were in place right from the beginning. Right when we started to act to try to stabilize the situation. And then as we moved into developing plans to resolve the troubled corporates and the distressed securities that they held, as well as for providing for reforms as Scott just went through for the regulatory environment that corporates operate under.

And the real bottom line was we couldn't let consumers be harmed. That is our number one mission at NCUA. Their money needed to remain safe, their insured funds. Their checks needed to continue to clear. Their credit cards and ATMs and debit cards needed to continue to work. And so that was always the overriding goal throughout this entire crisis. It breaks down really in four ways. One – prevent interruption of the payment systems and services that the corporates provide to Natural Person Credit Unions and their 90 million consumers that they serve – their members.

Two – preserve confidence in the overall credit union system, and certainly by doing the first one we are doing the second in part.

Third – manage to a least long-term cost consistent with sound public policy. Now that means that we are going to do our best to keep the costs contained and also as the Chairman indicated, try to spread them out over time to try to mitigate the annual earnings impact on credit unions. But at the same time there were some options that wouldn't meet this test if they were bad policy. So we wouldn't necessarily do something that would save a little bit of money if it was bad public policy.

And then four – we wanted to make sure that credit unions were the ones that made the determinations about ultimately where they wanted to get their services. That they had real choice. So we needed to create a transition framework that allowed for that to happen in an orderly way and to give credit unions real choice about the future. Where do they want to get these services from? Do they want to get them from the other corporates? Do they want to create a new corporate? Do they want to go to somewhere else like the Fed or a correspondent bank? That needs to be each credit union's choice. And so we went to great lengths to try to preserve that flexibility.

So essentially our strategy to achieve those guiding principles in dealing with these problem corporates and the assets that they held that caused this problem breaks down into three elements, just like we have three phases of the overall strategy, there are three elements of this particular strategy. The first one was we needed to isolate the problem. We did a comprehensive analysis, as the Chairman had indicated, of the entire corporate system. And we determined that there were five institutions that were not viable. Those five institutions account for 70% of the total assets in the corporates. But more importantly, it wasn't their size that was the issue. They hold 98.6% of the OTTI charges. Or said another way, of all the problem assets in the entire corporate system, 98.6% of the losses that came from them are from these five institutions.

So by dealing with those five, we are dealing with the legacy asset problem.

So how do we isolate them? Well first we needed to seize control of those institutions. Now WesCorp and US Central, as has already been indicated, were already under conservatorship since March of 2009. There were the three other ones, Constitution, Members United and Southwest that were determined not to be financially viable. NCUA Board placed those into conservatorship on September 24. That allows us to go into a resolution strategy that involves the good bank/bad bank model. Now that is a euphemism in the financial services sector for a long-time traditional resolutions strategy where you separate the entity into two parts. And so I will talk just a little bit about that real quickly.

What happens is, let's take WesCorp for example. WesCorp is a currently, well it is not anymore, but it was up until the 1st an active corporate charter. Just like with your credit union, you have an active charter, whether it is a federal charter or a state charter. What we did is we chartered a bridge corporate. NCUA chartered a bridge corporate; that is the good bank piece of that. And we transferred up to that new entity, that new legal charter, all the good assets, all the deposits, and all of the operations so that we could have no interruption to services to credit unions and ultimately to the consumer. So it is that new entity, that bridge, that will continue to provide those services over a transition period, which is targeted to be 24 months.

Now we have this charter still that was called WesCorp, that legal charter. That is going to be the bad bank. And what happens to that is that is still holding what is left over which is, by definition, the bad assets, right, if we moved all the good assets up to the bridge. That is holding these now bad assets to distressed securities. That charter becomes inactive. It is just a mechanism we have legally where it is no longer an ongoing entity. It's made inactive. And it is put down into an asset management estate and that estate is run out of our Asset Management Assistance center here in Austin, Texas.

Now we have isolated in this estate which is no longer doing activity now. Now the activity, the ongoing activity of serving the credit unions is up in the bridge. Now this estate is just a fixed entity and we are dealing now just with the distressed securities. Out of that we can pursue a funding strategy for the legacy assets. Now for context, as we went into this, we are dealing with about just shy of $50 billion in what is called unpaid principal balance. Now you will see those distressed securities on the books of the corporates if you are following the financial statements. They are at a much lower value because they are shown on the face of the financial statements at market value. But the unpaid principal balance that is still outstanding is just shy of $50 billion dollars.

So those are the distressed securities or the legacy assets that are now in this estate. And from that estate to do a securitization strategy to fund these assets over their life, we are going to transfer the title to those assets. We are not selling them as the Chairman indicated, but we are basically placing them into a securitization trust where they are held in trust by an independent trustee and they are going to serve as collateral for notes that we are going to issue into the marketplace. They are going to be called NCUA guaranteed notes and we will go over that in a little bit. So that is the funding piece. We are going to use the market mechanism through securitization technology to raise funds to be able to hold these legacy assets, these securities, and absorb what we have determined is the much lower credit losses over time versus selling them at a much higher market losses and having that cost all at once.

That allows us to lock in the funding, to effectively hold the securities, absorb the much lower costs. And then finally, and very importantly, and Scott is going to talk more about this in his section following this, is the transition framework which again was that fourth guiding principle. Creating now a transition framework for the entire credit system to make choices about the future. Where do they want to get these vital correspondent services from, what is the value proposition that the different providers offer and so forth.

But to make sure that it is orderly and that there is no disruption to those vital services. And we have done extensive planning to make sure that we don't have any disruption as well as contingency planning in case we did.

So I am going to talk just real briefly about the securitization process. And you might know FDIC actually did something similar to this starting in March of this year. Interestingly enough we were designing this in parallel, neither one of us knowing that the other one was pursuing this type of a strategy as an option for this situation.

But, of course, since then we have compared notes feverishly which has been very useful, I might add.

So they are going to be called NCUA Guaranteed Notes. And so essentially what is happening is we have this securitization trust. There are actually going to be multiple trusts. We are going to do – so let me back up a little bit. Remember I said there is just shy of $50 billion in unpaid principal balance. Well when you factor in the losses that are expected over the life of these securities, they are not going to be worth ultimately $50 billion. The cash flows that are going to come in, the principal cash flows and the interest cash flows is much less than that, right? If you are going to have defaults meaning the principal is not coming back, you are not going to necessarily collect that full almost $50 billion. You are going to collect something less.

So we are going to issue into the market, call it $30 billion to $35 billion in guaranteed notes. And I will explain why that is the case in a minute. So about $50 billion in unpaid principal balance. We are going to issue against that $30 billion to $35 billion of guaranteed notes into the market. The official name is NCUA Guaranteed Notes. The Ticker Symbol, so if you go onto Bloomberg, once we start this process, the ticker symbol will be NGN.

The notes are actually sold out of the securitization trust, with NCUA's guarantee on that. Now NCUA is an agency of the federal government. So our guarantee comes with the backing of the unconditional full faith and credit of the United States government, as to the timely payment of principal and interest.

Now of course we are accounting for the cost of that guarantee and the losses through the stabilization fund, the Temporary Corporate Credit Union Stabilization Fund. So that is where they will be accounted for.

So I think I have covered the green, the purple and the red. The blue box – over collateralized. Remember when I said there is about $50 billion in current unpaid principal balance? It is a little bit less than that. And we are going to issue $30 to $35 billion in notes into the market with the underlying securities as the collateral plus the guarantee of NCUA on the notes? The Wall Street term for that is called over-collateralized. And what that really means is we have designed this structure so that all of the cash flows from the underlying securities both principal and interest are expected to be sufficient to service the outgoing cash flow's principal and interest payments to the investors. So said in another way, under base-case expectations in the modeling, if losses come in at or less than expected, we will not ever have to make a guarantee payment. And in fact if they come in less than expected we will get some money back at the end of the structure.

If they come in a little bit more we will have to make some guarantee payments. And we will talk about what the range of those expected losses and estimates are on a slide here shortly.

The other thing that we did was we structured the securities, the new NCUA Guaranteed Notes, to match off all of the other risks. So in a way we are keeping the credit risk because we are keeping the bonds, right, which we have determined is by far the least cost strategy here.

However, we wanted to match off all of the other risks. So, we have designed the notes that we are going to issue into the market to mirror the structural features of the underlying securities. So just for context, about 75% of all of the legacy assets are residential mortgage-backed securities that are floating rate, they are tied to LIBOR and they have some available funds caps. So the notes that we will issue off of pools of those securities will be tied to LIBOR plus a spread, with a cap. And so we match off the interest rate risk. The other way we have matched off the risk is in terms of liquidity. As you know, mortgage-backed securities, just like the underlying mortgages that make them up pay principal paydowns that occur each month. It is not just a bullet where they just pay off the principal at the end. It is every month there is a little bit of principal being paid down. So they amortize, right?

So the notes that we issue into the market that are tied to these mortgage-backed securities will amortize in concert with the amortization of the underlying securities so that we have matched off the liquidity risk, as well.

Just so you know, all of the securities that we will be issuing, and there will be a series of about 8 to 10 transactions over the next four to five months, with the first one starting here next week. They will all have ten year or shorter hard final maturities. A couple of them, maybe two of the transactions, will be shorter than ten years because the underlying collateral is shorter term. But for the most part these are mortgage-backed securities, either residential or commercial and they have very long lives. And so when we did the modeling, ten years was the optimal point to have sort of a balloon payment to the note investors, the new investors in the notes, because it, one, it facilitates better execution in the market because it creates a framework around the extension and pre-payment risk that is inherent in these notes.

And two, and probably more importantly from an NCUA standpoint, since the stabilization fund is the vehicle that we are accounting for the losses through, we are able to get a finite and match up the extension of the life of the stabilization fund to the life of these new securities that we are providing a guarantee for.

Now that balloon payment in total is expected to be about $5 billion. Having said that, the underlying securities are projected to be worth, call it $4 billion to $7 billion. So unless losses get a lot worse than we think we will actually have more value in the underlying securities left over than we would have as a balloon payment. So we have built into the structure the ability at the end of the life, the ten year life, the ability to either take out the collateral and sell it, re-securitize it, so we would just do another – it is an automatic piece of it which was nice. We don't have to go through all of these other machinations. Or, we could just use NCUA's existing resources, the insurance fund or a borrowing authority to just pay out the notes and then hold on to the legacy asset. So we have options at the end and we have factored that all in.

The Chairman did mention also at the beginning, I just wanted to reiterate these are eligible investments for credit unions. Credit unions will need to make a decision about whether they want to participate or not. They are allowed to. It is a permissible investment. We would, of course, as your regulator and insurer suggest that obviously from a credit risk standpoint it is full faith in credit, so there is not a whole lot of due diligence you need to do there. Having said that, many of these are going to be amortizing. There will be a couple of bullets we will issue, but most of them will be amortizing. Most of them will – so you need to understand the liquidity and cash flow characteristics as part of your due diligence if you want to invest in this.

Most of them will be floating rate, but there will be some that are issued that are fixed rate. Some of the CMBS deals that the corporates held that are distressed are fixed rate underlying securities. And so we will be issuing fixed rate notes, again, to match off that risk. So to the extent that fixed rate does or doesn't fit under your asset liability management needs given your own portfolio management will needed to be factored in as well.

And we have arranged, as the Chairman had indicated earlier, we have arranged for ISI, a brokerage CUSO subsidiary of US Central to be the point of contact for credit unions in terms of, one, answering questions about the securities, and two, as the aggregator for credit union investments who want to participate.

Now you don't have to go through ISI. You can go through your own broker. You don't have to do that. But we thought many credit unions don't have necessarily that kind of a brokerage relationship so this was an option for them. And as the Chairman also indicated, under securities laws we can't market or get into explaining in terms of investor suitability the characteristics of the investment. So what I have told you today is from a stakeholder's standpoint of how we structure it to manage the risk given that we run the insurance fund. And also from your regulatory / insurer standpoint, the sort of due diligence process you need to go through, but in terms of other characteristics of the investments and whether it is right for you or not, that is something that you need to talk to a licensed broker about.

Let me just pause here. I'm going to go into costs now and then after that we will go into the transition framework and the bridges, so any questions on the securitization at this point?

Okay. Yes?

[Pause]

Unidentified Male Participant: What is the coupon on the bond for next week?

Larry Fazio: Okay, so the question is what is the coupon on the bond for the next week. That would have just been easier for me to repeat the question, right? That is a really good question. Thanks for that. I don't know is the answer. And here is why. The next week's security will be a LIBOR floater with a cap. The cap will be 7%, I do know that. And it will float to LIBOR, I know that part of it. What I don't know is where exactly it is going to price.

Unidentified Male Participant: Three month LIBOR?

Larry Fazio: I think it is the three month LIBOR, but don't quote me on that. So here is what will happen. Barclays is the lead distributor and has helped us create the securitization as well as work through some other of these mechanics. They are the lead distributor but it will be a syndicate. So there will be multiple brokerage firms involved in marketing and selling the security, including ISI if credit unions want to use them.

It will be an open, traditional auction process. So what will happen is there will be a marketing period, all the interested buyers will submit bids. They will say, one buyer might say I will take $1 billion at LIBOR plus 50. Another buyer may say I will take $0.5 billion at LIBOR plus 45. Anyway, they pull all of these bids together and hopefully like with the FDIC deals we will be in a situation that is called being over-subscribed meaning there is more offers to buy than there is issuance. We are going to be issuing next week about $4 billion. So that is the total amount. So to the extent that the appetite is greater than $4 billion through the auction process, what they go through is a process of sort of whittling down to the best price, for us, for the system.

And so they might price that in – so if you are getting some LIBOR plus 50 bids and LIBOR plus 45 bids and some LIBOR plus 40, what they will see is if they can get the whole $4 billion sold at LIBOR plus 40 in that hypothetical scenario.

So I don't know exactly what it is going to bid. Right now the intel we have from Barclays is it will probably trade relative to Ginnie Mae's as government mortgage-backed amortizing instruments and the advantage that we have is that we have a ten year hard final so that is to the upside. The disadvantage is there is not as much of a market for the ensuring notes yet. Ginnie Mae's is a little bit bigger market so there is more liquidity there. So we are hoping it will price in the LIBOR plus 40 to LIBOR plus 50 range. But we will just have to see.

Any other questions on the securitization? Okay. So just real quickly on the costs. I think if you have seen some of our prior webinars or town halls or what have you, we have gone through a very similar discussion. But it is useful to understand the context of what costs we have avoided and then what the costs of the actual resolution will be.

Now as the Chairman indicated we really in 2008 when this crisis became, got to its peak and we were at the top of the stress points for liquidity in the system, we needed to act to stabilize the situation. And this is why.

At that point in time, there was about $60 billion in distressed securities. The mathematical market value based modeling suggested they were worth about half of that. So if we had had to sell them at that point in time because we didn't have the funding to hold on to them, which was what was the case as the deposits had flown out of the corporate system.

There would have been an immediate loss to these five institutions of over $30 billion dollars. Now that is actually an optimistic case because at that point in time the markets were froze up; you couldn't have actually sold these securities, number one. And number two if you could have you would have got actually less than that; putting that amount of supply onto the market would have lowered the price.

So but let's pretend we could have gotten the $0.50 on the dollar and we had about a $30 billion loss. The Share Insurance Fund that ensures the shares in the corporate credit unions would have had a loss, an immediate loss of about $1.2 billion. Because it would have gone through all of the corporates' capital. Corporates had about $2.4 billion, these ones, in the retained earnings. So that would have gotten the first hit. After that the hit would have gone to both the Share Insurance Fund and to uninsured depositors. So the Share Insurance Fund loss would have been $1.2 billion. All of the rest of the loss, so the $2.4 billion minus the $1.2 billion would have gone directly to the capital contributors, the credit union members, but beyond that, some $20+ billion would have gone to the uninsured depositors which are credit unions.

So that loss flows down immediately to the uninsured credit unions, the credit unions that are the uninsured depositors. That would have taken out around 1,000 credit unions instantly. Would have gone through all of their capital and caused them to be insolvent.

The cost of resolving those 1,000 credit unions which again is born by the Share Insurance Fund because those member accounts, the consumer accounts, are insured up to 250,000. So the loss would have come to the Share Insurance Fund, and it would have been on the high side of that range, $10 billion dollars which would have necessitated a replenishment of the Share Insurance Fund in additional premiums which would have caused additional credit union failures. So when you go through the cascade domino effect, the entire credit union system would have lost $40 billion in net worth. So overall system net worth would be down to less than 5.5% and that is again in an optimistic scenario. And a third of all credit unions would have failed.

Not to mention the fact that you would have significant risk of major disruption in consumer transaction processing. So it is not an exaggeration to say that the credit union system doesn't survive that.

So that's the costs that were avoided. But what is this going to cost? Well the ultimate cost based on this strategy will only be known once we have held the bonds to maturity and we have seen where the actual losses go. If we sold them today the losses would be much higher and you would have certainty but it would be higher and they would be immediate.

So if we hold these bonds to maturity, we think all in costs over time over the entire life of this will be somewhere between $13.9 billion and $16.1 billion. Now the capital contributors take the first loss. So you have to deduct the $5.6 billion in member contributed capital. And what remains, the $8.3 billion to $10.5 billion is what flows down to the stabilization fund or NCUA as manager of the Insurance Fund. And then that is born by all insured credit unions. So $8.3 billion to $10.5 billion would be what flows down.

So starting on this slide with that $8.3 [billion] to $10.5 [billion], credit unions have already paid to date $1.3 billion in assessments for the corporate stabilization fund. That is not to be confused with the premiums that are charged for the Share Insurance Fund and we have separated those two now.

So $1.3 billion to date, there was a $310 million assessment in 2009 and then there was $1 billion assessment here in June of 2010. So that is the $1.3 billion paid to date. So when you back that off, we are looking at a range of $7 to $9.2 billion in future remaining assessments over the next 10, 11 years call it. And that is where the extension of the stabilization fund is also very helpful because we can spread those assessments out somewhat over that entire life of the stabilization fund. And I would add the one caveat to that, and I know some of the feedback we have gotten to date is that it is not exactly clear why this is the case, but just bear with me.

We have guaranteed obligations. We have made commitments to do all of this, even before the securitization strategy. And we have to satisfy those commitments. There are $5.5 billion in medium-term notes that have to be repaid in 2011 in total. Part of them in 2011 and the other part in 2012. And so we are going to have a high cash management point need in 2012. And so you can't necessarily just take the $7 billion and $9.2 billion and divide by 10 or 11, however you want to look at it, and get to what the annual assessments are going to be.

It is going to be a little bit front-end loaded. Now we have some ideas about how to mitigate that somewhat, but it will be a little bit higher earlier on than it will be sort of in the out years because of cash management needs. It doesn't change the total losses, it just changes how quickly we have to pay them.

And with that, I'd be happy to take any questions on those, the cost issues, or any other legacy asset securitization issues.

Unidentified Male Participant: Just a quick question. You had the $50 billion in toxic assets, right? And then $35 billion went to the bad bank, right?

Larry Fazio: They all went to the bad bank.

Unidentified Male Participant: Right. But $35 billion was the dollar, right, that went to the bad bank?

Larry Fazio: No.

Unidentified Male Participant: Because where I am going with this is then does the good bank start with negative $15 billion in equity?

Larry Fazio: Okay, that is a really good question. Let me just clarify. All of the distressed securities go into the bad bank. All of the ones we have identified as distressed securities. The unpaid principal balance for that amount is just shy of $50 billion. But when you deduct the credit loss piece expected over the life of those securities, the actual cash flow's principal and interest is expected to be somewhere between $30 billion and $35 billion, and that is where that number comes from.

The market value and what was the book value is actually less than that even. It's even less than $30 billion, somewhere in the 20s, right? Alright. So just to clarify that piece of it. The second piece of that is, it was, help me out again, it was the –

Unidentified Male Participant: Well it sounded like, from the Town Hall –

Larry Fazio: Oh, the good bank.

Unidentified Male Participant: Yes.

Larry Fazio: So the question is, is there a big hole in the good bank because of the extra $15 billion? No, the hole is in the bad bank. And that is what then the NCUA through the stabilization fund is responsible for. But under this strategy, so for example the $15 billion hole – we are not going to have to assess credit unions for that $15 billion hole. We will only have to assess credit unions for the $7 billion to $9.2 billion that is expected. Based on the losses and you deduct the capital and so forth, you get to the $7 billion to $9.2 billion assessment. So the hole will auto-correlate to the actual lower amount of the assessments over time. It is an accounting issue more than it is – it is not the true economics. The true economics will be $7 billion to $9.2 billion in remaining assessments. The accounting hole will be higher. It is actually more like $18 billion. But that will come down and meet up with the actual assessments over time. And we will only be assessing for the actual costs.

Unidentified Male Participant: How does it come down? What mathematically occurs?

Larry Fazio: A couple of things. Essentially what we have to do is bring the bonds down at market value, so the loss is actually bigger. But that is assuming you sold them. And we are not. We are holding them in trust as collateral and we are just issuing notes against that. And so we are going to absorb the much lower credit losses over time.

So what happens is the value of the bonds, all else being equal, the value of the bonds as they come closer to maturity, so it is more like this. The value – this is the intrinsic value based on the lower credit losses and this is the lower market value. It comes towards intrinsic value as you get closer to maturity. Because right now the big difference is in illiquidity premium in the market. There is a lot of uncertainty; you don't know what the actual losses are going to be. Are these securities distressed; they don't actively trade in the market, that sort of thing. And so that is the big difference. That is what accounts for the big difference in price. That stuff goes away over time.

Unidentified Male Participant: (Inaudible – microphone inaccessible) and thanks for your patience for allowing me to press on this, because I talked to a lot of credit unions. I'm trying to help them figure it out. If you've got $50 billion in toxic assets, legacy assets, and they are moved, and what we have said for the last two years is, we are trying to get the FASB to agree to let us move them without incurring a loss, right?. So FASB gave us a waiver?

Larry Fazio: No, and this is, we are getting into the complications of accounting which is not fun territory to be in. Initially the thought was going to be that we didn't actually move them. Remember when I said we created the good and the bad bank? The bad bank is the existing charter and all we did is make it inactive. So we didn't actually move the securities. What we moved was the good assets up into the bridge. Having said that, there is still some debate right now among practitioners of whether that is really a move or not. What changed in the middle of the project was the stabilization fund was designated to operate under FASAB standards which are the federal equivalent of US GAAP. So FASB is no longer relevant to the stabilization fund accounting and thus the asset management estate accounting.

And under FASAB there is still some debate of whether or not the stabilization fund's financial statements will show the bigger hole or just what the net expected assessments are. We are still working through that. But either way we have to present it. We do know that we will only have to assess for is the $7 billion to $9.2 billion.

Unidentified Male Participant: One final question. The good bank – what is the equity in the good bank? Zero?

Larry Fazio: Yes, so the good bank, the bridge bank is uncapitalized and it doesn't, I don't know, you are going to have the actual numbers here shortly, but whether or not it will start out slightly positive or slightly negative, we are still going through the accounting for that as we create the separation.

But having said that, just think of it essentially as uncapitalized and it won't be capitalized because it is just a temporary transition mechanism. It is an instrument of NCUA to create this orderly transition framework. And so it is not going to be capitalized. And we will have in place what is called a prior undivided earnings deficit guarantee. So to the extent that it operates somewhat in the red, and I'm starting to get into Scott's territory a little bit. He is going to actually cover more about the bridges and how they are going to look financially. But essentially it is going to be an uncapitalized entity.

Unidentified Male Participant: Thanks for your patience.

Larry Fazio: Sure. Yes?

Unidentified Male Participant: My question is more about how will we know if this is working on the toxic assets. What is a good rule, a measure, for us to figure out if these cash flows are actually coming in or if they are actually worse than what we think?

Larry Fazio: Yes, that is a great question. Thanks for that. There are a couple of things and I actually didn't really go into this. That is another sort of tangential benefit of the strategy is the trust, the securitization trust is run by a third party independent trustee. It would probably be somebody like a Wells Fargo or a Bank of New York who does this sort of thing. And the securities will actually be held by a custodian as well. So that is the framework for that. So those are independent entities from NCUA.

The trustee's responsibility is to the investor, not – now we have contractual agreements in terms of how the guarantee works and stuff with the trustee, but the ultimate fiduciary duty for the trustee is to the investors. So there is a high degree of transparency around the ongoing accounting and what are called remittances reports. So the trustee's job will be to collect all of the cash flows from the underlying securities, these distressed securities that are in the trust now and then issue the outgoing payments to the investors. And there will be ongoing reports and you can go look them up – it is very transparent and public.

The other thing that will happen is going into that process, we will have a prospectus for all of these issuances which will list in detail the underlying securities and their nature and expectations and things like that. So if you want to know what they are, you can go to the prospectus. If you want to know how they are doing, we can go to the trust reports.

Now NCUA, of course, has a responsibility because we are providing he guarantee and we ultimately are going to recoup whatever residual is left there. And so we will, in addition, be doing our own ongoing analysis of these securities and accounting for them to make sure that, one, the trustee is doing what they are supposed to, and two, we understand what the cash flows are and what the potential obligations relative to the guarantee are going forward.

[PAUSE]

Any other questions?

Okay, with that I'm going to turn it back over to Scott.

Scott Hunt: Thanks, Larry. Okay, so now we know where we are. What does the future look like? Actually, I should have had this up before I said that remark. We have thrown a lot out at you, in the slides and the presentation. One thing to understand is a lot of what was going out there, while internally we knew all the hurdles we had to jump through, accounting, policy, legal and what not, one of the things our board quickly understood was if we only took one of these actions, the question always was, well, if we conserved, okay, what's next. You still have the asset problem. Or if we took the assets off, well where is the rule? And so one of the things we had to understand is while this is a lot of information to throw out at you one time, hopefully by the end of our presentation or all the sources we put on the website, you will understand how they fit together.

In essence what we are trying to say is that there is not another shoe to drop. This is the plan; we are trying to walk you through. We have got those institutions as Larry already mentioned, with nearly all the problem assets. We have a framework with the rule to carry them forward. And we are going to work through this with the legacy asset solution to reduce the cost as best we can, admittedly there is serious cost.

But now at least you can see the full picture. So it is a lot of information. I say that though as when you walk out of here there is a couple of basic things that I don't want to ever lose track because it is what kept us sort of straight throughout the whole process. And one is right now where we currently are today, we still need your shares in the system. And with that, our pledge back to you is we keep the share guarantee in full effect through December 2012. We have not effectively securitized these assets. That will happen over the next four or five months into early 2011.

But right now the rest of the system is the same as it was before what we announced in many ways. If you pull the money now, quite frankly we don't have all the cash on hand to fully payout on the share guarantee. We need your shares to stay in the system until we fully accomplish the full securitization. And so I don't want that lost. We haven't gotten out of the woods yet.

So, the share guarantee is in full effect. If there are any questions on whether your shares are falling under that guarantee, please look to our website; there are fact sheets there that walk you through the process. Look to your corporate; ask them the question. They know – we try to give them as much information as possible. I don't want anybody misunderstanding. And beyond that if you still are not getting it and there is a fuzzy area you can talk to OCCU staff and we will walk you through it. But essentially if you keep your new investments at two years or less, you are fully guaranteed. Of course there is always the insurance underlined there of $250,000, but we know there are significant balances above that so the share guarantee is what we speak to most often.

Secondly, everything we are doing here, we realize you don't just unwind corporates overnight because that intricate business model of payment systems that they provide to the Natural Person Credit Unions. At WesCorp, Members United, and Southwest, their memberships are over 4,600 Natural Person Credit Unions out of the near 7,600 of all credit unions.

We realize how critical it is not to disrupt these payments. Because to do so then hits you on your member's side. We don't clear checks. We don't clear where payrolls go through ACH or other actions. That could cripple the reputation of the industry and how they want to do it; that's why we are taking such actions to create these bridges, create the rules that we are doing is to foster that reputation of we are here, we are going to continue to serve you, even if we are in conservatorship. Even if we go to bridge. We went to great lengths to do this to make sure you are not disrupted.

And Larry already went through at length and I'm not going to elaborate further is we are here to reduce the long-term costs to the system. When we talk up here, we talk here and we say you are going to pay billions of dollars, we don't take it lightly. As Larry first started off, there are multiple billions out there had we actually liquidated these securities that would have fallen on the Insurance Fund. So we realize it is a significant cost. Even if we stretch it out over 10 years it is still a significant impact to your bottom line. But the pain could have been much greater if we just did an outright sale.

Under the bridge corporates, these entities were established by NCUA for the sole purpose of continuing payments operations and liquidity operations of the corporate to its membership. As I have already mentioned the three retails over 4,600 members and we also have a Constitution and I will speak to Constitution a little bit differently later. But these three are in conservatorship, albeit WesCorp just went through a bridge transition. And what does that mean?

I don't know if anyone here would raise your hand if I asked, but if anyone here is a member of WesCorp and you are so inclined to raise your hand, did you see any disruption this past week in your services? And the gentleman is shaking his head and that gives me comfort. We took great pains to make sure that what we are doing on the backend and what those staffs at those corporates are doing on the back end doesn't interrupt your business with them. They did a major accounting conversion. They did a major system conversion. A lot of other odds and ends to create this bridge. But the one thing that was most important was you didn't see it. If you talked to Mary Jo or you engaged in this service through this portal, that's what happened the very next day. And that is what we are going to go through. So I want to reassure you, when we created this bridge it is for that purpose and you should not see anything on your end.

Now to be fair of what is going to change, this is a temporary entity. This will not be a long-term GSE that NCUA will prop up for years indefinitely. It can't be – a policy perspective. It is not a position the regulators should be in. We are here to provide the transition mechanism. You all are going to have the say in where it goes.

To transition, if it is going to be a purchase, a sale, a transfer, however you want to call it, the best thing to have is what I call a nimble balance sheet. A nimble balance sheet will consist largely of cash. And when there are investments, those investments will be treasury and agency six-month debentures, that is it. That is a pretty simple balance sheet on the asset side. They will extend credit to their members for liquidity needs only and six month maturities. We are not in the business in a bridge institution to continue to fund portfolios of member credit unions. If you are out there and you are building portfolios of auto loans for your members or mortgages, that is not the business line for a bridge. The bridge is there for liquidity. Again, on the backbone of payments. If you are caught short, summer months, educational-based credit union, the payrolls haven't kicked in maybe for the school district. They kicked in in the fall and you need some cash to make sure all of your payments are clearing with your members, the bridge is there for that. That is a specific type of liquidity we are working at.

When you are on the asset side there that are very short, we are not going to continue to fund it with long term funding certificates. Certificates will be capped at six months or less. We are going to remain competitive though. I want to be clear. You are not going to be able to invest two years in a bridge, but when you invest in that six months and in, it is going to be competitive rates.

So, I just want to be clear – it has to build a nimble balance sheet for the purposes of it is temporary and that is why we are doing it. There is a reason behind what we are doing. Because at some point when we want to move it, we want to be able to act quickly and we don't want to be bogged down with 10-year loans or unmarketable securities to get to that transition.

To be clear now, also, if you look at any business model. I don't care if you go to JP Morgan, you go to other correspondent banks. They all operate generally the same. There is some subsidation to get to a bottom line, a profitable bottom line through investments. And I already mentioned we have really taken the risk but we have also taken the return out of these investments. We have realized that. The greater goal is keeping it a nimble balance sheet. It is likely we are going to operate in the red. We are not changing fee structures at these bridges so we don't disrupt services. We are trying to become as efficient as possible but to be fair, we are continuing the business. We are not shedding the business, we are not shutting it down. If we need to invest in infrastructure to continue to deliver services in a safe and sound manner, they will buy and invest in that equipment or personnel as necessary.

But all of this may come at a cost to a red bottom line. And I want to be very upfront with you because those negative retained earnings will be a cost to all insured credit unions. That is going to be borne.

To be very clear though, everything we have done in conservatorship that I can speak to WesCorp and US Central because this question has been asked in other forums and I want everyone to leave here – those operations were profitable, absent the losses; losses were sizable and you don't just ignore them, but NCUA didn't just prop up institutions for 18 months at any additional cost to the insurance fund. They all operated in the black. It is only when they go to the bridge bank is when they are going to start having negative earnings.

So what is going to happen now for the next 24 months? The NCUA put a label out there – 24 months we are there for you. I want to be very clear. I hope we are not at 24 months with these bridge banks. The best solution for these bridge banks is to quickly have the leadership teams get together with the members, find a solution that brings all of those critical payments, liquidity services, to those members in total. Not to piece it out. Not to sell item processing today and ACH tomorrow and wires the next day. Because that now puts three different endpoints to the members which is against what the corporate was really created for was to have a single endpoint to provide those services.

We have tasks, each of these leadership teams. Quickly. Get with your exec teams, then, get with your members. Create a plan and find a solution that we can transfer all of these operations in total to the next entity. And we will talk about what those entities may be. But that is critical and I want that clear in this room. We are not out here selling assets. That is not where we are right now.

Now, if the collective membership gets together, they see the plan, and they say, "You know what, it's not for me," that member should move off, find its own solution. And then we are going to tell you there if the whole thing doesn't get off the ground, the agency is behind these bridges for 24 months. We will prop it up so that there is an orderly transition off the corporate services. We are trying to say, now why 24 months? Well, because if I said six people would get excited it is too short. If I said 36 – we had to pick a number. I couldn't just tell you we are there for the long haul. It speaks to a number.

But if we need 25 months to do it, we will go 25 months. If we need 30, we go 30. If we – the idea is we don't want anyone making a panic decision that says they have to be first to the till with their corporate to get off those systems. You've got time. Give your leadership teams time to develop this plan and then work with your boards, work within your teams and say is that reasonable to continue services. That is going to be your decision. It is not going to be NCUA's and we are not going to say you should support it. But in fairness I think you all became members of a corporate because you valued much of what they deliver absent the investments. But there is a still a core nexus of operations we think is best kept intact moving forward.

Where are we going to move it to? You can move it to an existing corporate. Admittedly some of this is difficult because of the retail corporates, three out of the four that were in conservatorship have the largest membership bases than the other 22 that are not. So we have to be realistic in our expectations – can they scale up to absorb all of these members. And I think it would be a challenge. I don't want to say categorically no, that is not fair to them. But to bring on 4,600 members to the rest of this system in a very short time is not realistic.

But over time it could. Or, in some sense of members they could. We could sell it out to a correspondent bank. There are banks that do it. We don't like that word but there are banks that do it. But there is also the entity here, where the members come together and re-charter the institution. They charter their own institution, much like they did 30, 40 years ago with Southwest, Members United, WesCorp. And then they purchase and assume the operations that are there today. So if you like your endpoint now, you like how you are doing business, you charter it again, you are going to have to capitalize it and you are going to have to hit 4%, this does come at a cost. But then you own your infrastructure as it were to continue payments.

That may not be a value proposition for all. I think it will be or has potential to be a value proposition for many. And, again, the leadership teams are going to get out there with the members and they are going to promote different arrays of ideas so that whatever solution is best reached in concert with the members having input. I know there were rumors out throughout this whole process NCUA was going to determine the winners and losers. In some ways that simplifies the world, because we have defined it for you and you just have to decide to get on board. But that is very problematic for the regulator to have done that and that is not in your best interest. You are the members. You created the corporates. We want you to be the ones that decide their fate and their future. Work with the teams.

We don't have an ability to go straight to capitalization of the bridges. It is a policy issue. Again, the regulator propped this up only for a facilitation of a movement of services, not for the ongoing entity. I know it sounds a little odd, sounds a little cumbersome, but from a policy perspective it is really not proper for the agency to charter the ongoing entity. That is not our charge. We are here for the safety and soundness and the safety and soundness of the transition. And again I really hope that the members can come together because on the other side of the ledger, our regulation and insurance of you all, it would be detrimental to the industry to have 4,600 institutions going out and finding their individual solutions for all of the services of these corporates. That is a lot of disruption that would be going on in the background individually knowing you are also dealing with your own increases and charge-offs, credit quality – still have a lot of challenges there without the corporate problem per se. So, again, why we are trying to find this holistic solution.

Before I move on, is everyone clear then on the bridge? Because we have spent a lot of time on these otherwise known as failed institutions. But there are 22 other I have to talk to you about. But are there any questions on what I have said about the bridge institutions, their longevity, their purpose?

Unidentified Male Participant: How will you determine the value of the bridge credit union if a group of credit unions want to buy it?

Scott Hunt: Let's just say it is a new charter, just for a broad base, and you will actually have to purchase the assets. We have to determine a fair value. Fair value could be the hard costs – here is a building, here are servers. There are also soft costs that we have to understand that if we didn't provide this opportunity and we just wound the institution down there would be costs on an individual basis, 1,200 times over for Southwest. 900 times over for WesCorp. 2,400 times over for Members United. That has to come into our calculations when we are weighting the all-in costs to the industry. It is not going to be just a hard dollars and cents specifically on what does this machine cost.

And I don't have a solid answer until we really see an actual plan in front of me to be fair.

Unidentified Female Participant: Hi, at the bottom of the previous slide there was something about small credit unions and it seems like you kind of bypassed.

Scott Hunt: I did bypass it. And I'm sorry; I'm glad you brought that up.

Unidentified Female Participant: $5 mill.

Scott Hunt: Small credit union assistance. Our Office of Small Credit Union Initiatives is actually I know right in the middle of their own town halls, their own workshops I think actually is what they call them. This specific topic will be developed and they are going to do a more one-on-one – I hate to say the level, but your specific interest in this whole idea of dealing with corporates. Their staff will be speaking with you, getting ideas, feeding them up through the agency and also helping us better frame how we move directions going forward.

The other side of it, there is some measure of financial assistance – should you need to find other solutions in a corporate or how you are going to move forward. It is limited, to be fair. It is something like the Treasury grant programs that are out there. There are a few million dollars and we can entertain – or I shouldn't say we. I know Tawana James and her shop – she is the director of the Office of Small Credit Union Initiatives. We will be looking at how to best allocate funds on those needs.

I know if you go on our website, all of those workshops that are coming up are planned and you can see there is a location that best fits your needs.

Unidentified Female Participant: Yes, with regard to the contracts that credit unions have with the existing bridge, what will be soon bridge corporates. If our contract for services expires within that 24 month period than that seems to not be a question. But if someone had a contract that went beyond that point, how will those contract dates be handled?

Scott Hunt: I can't speak to the long-term. Right now the question was raised, hey, if you put the institution in a conservatorship or and it is relatively about a month we anticipate we are going to go to a bridge for Southwest and Members United. I just want to step back there. That date is really determined by us working with Barclays. We determine when we go to bridge by their need to get to the bonds for the securitization. So if they say they need it by this date, well then that is how we have to effect the liquidation. So you sort of understand the rhyme or reason when we do it. It is for that process that Larry went into detail on.

But there is a question – what if legally one of these actions triggers an out-clause on these contracts? Well then legally I can't bind you to continue doing business with the corporate. There is a measure of questions. I think you should work with your corporate and determine if legally you can get out, if you want to get out.

From a policy perspective, I sit up here, I would say please give your leadership teams a chance to develop a plan. Even if you are legally permitted to get out tomorrow or whatever, or your contract expires, work with them maybe to go on a month-to-month to see the plan. And if you don’t want to be part of that plan, then to be fair we need to let you move on.

Unidentified Female Participant: And to be clear, I do plan to do that. I wholly support finding a way to make this work with a system solution. So, on the other side of it, if a contract expires next month, then we will be allowed to go month-to-month with services at the existing prices. Is that correct?

Scott Hunt: We do not plan on changing prices until at least a full vision of where to move forward. So, the specifics on a month-to-month, I have basically charged the leadership teams. We want status quo for operations. And if month-to-month contracts facilitate that then we should completely be receptive to that.

Unidentified Female Participant: And then just one more kind of question/observation. As we are preparing our boards moving forward for what the potential losses may be, certainly we have got the estimated costs of the assessments that you have provided us. But a couple of CEOs were talking the other day and it occurs to us that there is as many as a possible 5 sources for future assessments. And let me kind of cover them and you tell me if we are on target here.

Of course we know we have this corporate stabilization. And then we will have our regular premium assessments, that is not going away. And then we have possible losses in the NGN. Did we not mention that?

Scott Hunt: That won’t be a separate. That will still be part of the corporate resolution which we are already building that in. As Larry mentioned that $1.3 [billion] you have already. It is part of the losses coming out of the bonds even in the securitization but you have effectively already paid part of that, so it is not a separate and distinct cost.

Unidentified Female Participant: It is not a separate, okay. So, then if there are future credit union failures, Natural Person Credit Unions, that is another source for a possible assessment?

Scott Hunt: I took that as being part of your premium assessments speaking – is that specific to the NCUSIF for Natural Person failures?

Unidentified Female Participant: Okay, but that would be a part of that?

Scott Hunt: Yes, and our Chief Financial Officer at every board meeting provides a graph and you see the trends how they have been increasing. Not only increasing, numbers of three, fours and fives, but the size of the institutions and the insured shares under those threes, fours and fives has grown which has provided greater exposure to premium costs for all federally insured credit unions.

Unidentified Female Participant: And then if there were a run on liquidity at the corporates, that could be another potential. And of course that goes back under stabilization.

Scott Hunt: Another way of getting to a cost that could be increased, right. If everybody pooled their money today and we felt the only way out was to sell the bonds, to get that cash, to make good on the share guarantee, that can increase your costs, yes. At one point that additional cost was over $12 billion dollars – additional on top of the figures Larry characterized as your current range of roughly $7 billion to $9 billion moving forward. Larry, if you want to?

Larry Fazio: Go ahead and then I'll –

Scott Hunt: He is going to correct everything.

Unidentified Female Participant: Well and I'm just trying to –

Scott Hunt: We are a team up here so we joke about that. Obviously –

Unidentified Female Participant: I'm just trying to get the big picture here so that my board understands that there is a lot out there. And there is a lot at stake. And it depends on us working together to not make the worst case scenario happen. But I think that my board deserves the full picture of where potential additional losses can come from. And to wrap that up, I'm not familiar with, I frankly haven't had time to study the list of three, four and five credit unions and where we are out there. But, will you before you leave today address where we are on credit unions and if we have some more on the cusp of failure?

Larry Fazio: Let me, am I on? Let me just provide a little bit of elaboration on what Scott mentioned. There is basically two sources, let's call it three, but two primary sources for costs from NCUA to credit union standpoint in terms of insurance costs. The corporate costs for these distressed securities, for these five.

That $7 billion to $9.2 billion that is going to be over the next 10 years, that is a fixed static pool of securities. There are not new operations that are adding to that cost. We have baked into that projection the operating the bridges and the red, so that is an all-in cost, okay. So that is pretty finite. It shouldn't be growing. I mean it could change if the bond losses get a lot worse, but that is why we gave you a range because – and we have a pretty high degree of confidence around that range. I'm not saying that it couldn't be higher, but we have a pretty good sense of that.

So that is the one issue. The second piece is credit union failures, Natural Person Credit Union failures. Every time a Natural Person Credit Union fails and there is a cost to the insurance fund, that lowers the Share Insurance Fund equity ratio and we might have to do a premium. There are really two things that drive premiums. One is the failures of credit unions, Natural Person Credit Unions, and the other is the growth of insured shares.

And maybe a silver lining to this whole crisis and I think the Chairman had mentioned this earlier is, something not to be forgotten, is credit unions are really seen by consumers now as the place to do their business with. And so what we have seen is a growth, a pretty significant growth in insured share. So in addition to some reserving we have had to do for potential failures of credit unions that has affected the equity part of the equity ratio, the basis of that ratio, the denominator, the insured shares, has also grown fairly substantially.

So, if you are trying to look forward and get a sense for what is to come for premiums, those are the two things you want to keep an eye on. How is the credit union system growing and in particular how is your credit union growing, and what does it look like is the health of the overall system. And that is where Scott went to the looking at the three, four and five trends.

In terms of, and then the third I will add to that and then I will jump back to the three, four and five trends. The third sort of unknown or variable is in the corporate system, talking about the costs for the five and their distressed securities, if for some reason we have to resolve some of these other 22, we have modeled that out. And if we had to take down the whole corporate system, and all the other 22, it would add $1 billion to $2 billion in total costs. So not nearly as much as these five. But not also insignificant.

Now we don’t expect that to be the case. That is like an extreme worst case scenario that you had to just essentially liquidate all 22 other corporates. And we don’t expect that to happen but we have modeled that out. So that is the context for that. In terms of the overall health of Natural Person Credit Unions, we are seeing stressors there, especially continue to have them in the sand states, so to speak, California, Nevada, Florida, places like that.

The most recent economic analysis update we had from our chief economist, it is not necessarily a very good picture sill for the overall state of the economy.  Credit unions as a general rule still are weathering this crisis in this economy pretty darn well.  I mean our net worth in the system still up close to 10%; 9.9%, I think, was the most recent number.

The biggest stress that we are seeing across the board is just on earnings and we understand that and we are working with our examiner staff for them to take that into account as they examine you.  I know that is always a challenge.  Examiners are people, too, believe it or not.  And it is also not a free pass in the sense that if you are already having problems, you have made some bad decisions, just because there is a stabilization fund assessment doesn't give you a free pass on those, but we are trying to factor in the NCUA cost piece of that.

So I don't know what the future is going to hold for credit unions.  The long-term future looks good but the next two years we are expecting to still be a little rocky.

Chairman Debbie Matz:  And we will provide a range of assessments at our November meeting for the combined Corporate Stabilization Fund and the Share Insurance Fund just like we did last year.  We will do that, again, at our November board meeting so it will give you some idea of what to expect.

But just to add on to what Larry said, the other factor that is taken into consideration when we do the assessment, the actual losses that have occurred.  It is the shares, but it is also the anticipated losses which is why we look at the CAMEL ratings of the credit unions.  Now when I came on a year ago I was really shocked when I looked at the number and the size of credit unions that were CAMEL three's and four's.  We have over a dozen billion dollar credit unions that are CAMEL 4.  That is very scary.

However, when I came one, there were a number of those which we thought were eminently going to need to be conserved or merged; and they stabilized.  And now we are thinking that that is not the case and that they will recover.

Unidentified Female Participant:  (Inaudible – microphone inaccessible).

Chairman Debbie Matz:  In some cases.  It depends how bad they are.  When we have credit unions.  I know we have a, and I will bring it right up, we got a lot of flack on Arrowhead.  We had let that go.  And it was going in the wrong direction.  And in order to minimize the ultimate cost of the Share Insurance Fund, at some point we have to make a decision that to continue is going to cost the Share Insurance Fund a lot of money and that it is not going to improve.  And so we have some criteria that we use, but yes, we tried to let the credit unions work through it, and in some cases we might even conserve, which is the case in Arrowhead.  We have conserved it and the goal is to get to the root of the problem, make the changes that are necessary, and then either merge it or return it back to the members, not to liquidate it.  Our goal is never to liquidate it.  But when we conserve a credit union, it is because we want to save the costs to the other credit unions.  We want to minimize the impact on the Share Insurance Fund.

Unidentified Male Participant:  I had some questions related to that, too, and I need to talk to my board.  If you have been a credit union that has run a good shop, you are incurring a lot of losses associated with bad corporate credit union decisions, mistakes by NCUA and mistakes by Natural Person Credit Unions.  We have separated out the assessments to two parts, one related to the corporate and one related to the Natural Person.  A question that comes up with the board and then also with myself is why don't we have for the Natural Person assessments have that be risk-based like you do for car insurance.  In other words, if you don't run your shop properly you should pay a higher premium.  And if I look at the total costs that are going to be incurred over the next decade, I have a real hard time justifying that not being the case.

Chairman Debbie Matz:  And I agree with you, but we would have to get the statute changed.  And it is something that previous Boards tried to do.  It is something that we might address going forward.  But we don't have the statutory authority to do that.

Unidentified Male Participant:  How do you bring that about?

Chairman Debbie Matz: Getting Congress to pass a law to change the Federal Credit Union Act. Because right now all credit unions, it is in our statute, all credit unions have to be assessed at the same rate.

Unidentified Male Participant: Okay. I think there is a substantial number of credit unions that do have a problem with that not being trying to be actively changed. So how do you go about that process? If you are a Natural Person Credit Union and you are trying to move it forward? Because those result in higher losses for credit unions that do run well. And the whole point of the regulatory process should be to go ahead and encourage the proper behavior because in the long run if you have shops running properly, it is less cost to the consumers.

Chairman Debbie Matz: You are absolutely right. Talk to your members of congress. And explain it to them. I mean we have. It is not something that we have done actively now because we have been dealing with other significant issues, dealing with the corporates. But you always have to be careful, too, because if they open up the Federal Union statute, that is probably not the only thing they are going to change. And so you need to be mindful of that; that once they start focusing on that, they are likely to make other changes as well. But you are quite right – having a level assessment is probably not fair to the credit unions that are running, that have less risk in their portfolio.

Scott Hunt: And just if I may, if we general questions like that, we will leave time at the end, but I think I do want to make sure we cover the next section first just to be fair how we are trying to do the presentation. Because I think it is important because there are 22 other corporate out there that we haven't talked about and I want to sort of walk you through the expectations on those if you don't mind. But we can certainly – there will be time to ask other questions of a general nature.

Like I said, there are 22 other retail corporates. And right now we believe working with their memberships they can become independently viable. It is not to say they are free from risk, it is not to say they are adequately capitalized. Quite frankly many of them will need more capital. They will get there, again, either through earnings. They will get there through reducing the balance sheet. Or they are going to get there through capital contributions from their members or new members as it may be.

They are going to be working over the next year and I have already given you that hard date – October 20, 2011 now as sort of the hour where we expect them to hit that 4%. Over the next couple of months, between now and the end of December they are going to be putting together business plans and they are going to submit those business plans to OCCU, the Office of Corporate Credit Unions. So we understand the direction they are moving forward. They are going to then proceed to work with their members. Of course even developing the business plan I believe is working with the members; it is critical. And then over the course of 2011, go through a series of raises to get the capital. What we are looking at is a process, again, to achieve 4% capitalization. We realize it is sort of are you going, who is going first kind of thing to put capital, because you don't want to put capital at risk if you don't have a full raise to get to the 4%. Because if you don't hit 4% you are subject to PCA. And Prompt Corrective Action could result, on the worst end of the case, conservatorship and then the NCUA working for what is the best resolution to the members and the cost of the Insurance Fund. We don't want to get there. But we are pushing all corporates to get there and raise the capital to that 4% level next year.

What we have seen through working with the various vendors and inputs on the credit loss, because some of these corporates have a continued exposure to mortgage-backed securities, the privately issued mortgage-backed securities. What we have seen is we do not believe it would go through and eat through all of the existing capital. There may still be losses, but it shouldn't eat through the existing capital. And if you are a capital member today, you are at risk. But the thought process is they can go through their process, go through a stress scenario with their vendor, come back to the members; it hopefully shows what we see. If you put more capital, that capital should be for tomorrow's risk, not today's.

You are already in for your capital today for today's risk. But coming back, if you want to be part, if you want to own the corporate like you currently do, you want to continue that membership, you've got to put new capital. And there are machinations in the new rule which says you could prioritize that new capital over the existing. Said another way, the existing capital takes first losses and then the new capital takes second order losses. There are flexibilities that the officials, at the corporates can take advantage of to make this happen. We can also go through periods where new capital is put in escrow. And that way we know we have capital actually being pledged and if we get

4%, the expectation is honored. You put your capital in to get to that four. But if they have a failed capital raise, we would be open to that escrow going back to the members and then the NCUA dealing with it as the institution at the time with insufficient capital.

So there are machinations out there to try to work with all of the members knowing it is a very difficult decision; it is going to take a business proposition. You are going to have to go back and convince your boards or your boards are working with your staff leadership teams and saying do I want to continue doing business with my existing corporate.

And if so, am I willing to put the capital in or otherwise work with its structure, its plan so at the end of the day on October 20, 2011 they have got sufficient capital to be independently viable. Again, it is a member decision.

It is not going to come without any strings because you are putting more capital; I mean I have said that three times, but I don't want anybody misled with what we are doing here. One question came through our processes: Well why don't you just take all of these bonds off the balance sheet? Just take them away, package them up, and now my corporate can move forward. Well that's not fair to the insurance fund. We have to put that capital first at risk. You are the members of the institution. If I am not a member of that corporate, it is not fair as a paying member of the insurance fund to absorb those losses before the capital holders. And the only way we get to that capital holder in front is creating these liquidation estates. We are not going to do what is called open bank assistance where we put guarantees on these assets while otherwise it remains in full member and leadership control. If you have the problem assets that requires that, in our policy of being the regulator means we would have to assume control to protect the interest of members and protect the interest of the fund. So, this is going to be a difficult proposition for some. But we feel that if the members want to bring that corporate to viability, they have the ability, the full control to do so. And the agency won't be driving it through conservatorship.

But if it doesn't fail than we will have to answer that question and saying that didn't meet the capital standards, it is not independently viable and the agency then has to take whatever supervisory action is deemed necessary at that time.

So that is essentially what we are trying to accomplish with these other 22. They are not all the same bucket – some of them have 7% capital and I know they are not going to require any additional capital from their members. But some, to be fair, have much less than that. Again, you have to decide on the business proposition if you want to continue to do business with these entities. Any questions on that piece of information?

I don't think the break was taken by enough to get the sugar rush in this room to get the questions. I am hoping it is because we were clear in our explanations or if nothing else quite frankly you are hearing the same message. That is a win for us. We don't want any surprises coming out of the next meeting. A question from the back?

Unidentified Male Participant: Yes. I had a question about, in all of your modeling and everything and you are talking about all of the other corporates are financially viable. Have you done internal surveys and everything like that to just see what the other corporates that are going to have to raise capital, what percentage of the existing credit union world would inject additional capital?

Scott Hunt: The answer is, I don't know. We have only done it from the aspect of risk on the current balance sheet and investments. To be quite blunt I have heard through various venues, heck no. It was a very popular response in a setting like this is to say, "Heck no. I will not give one dollar of capital." But quite frankly as we have held some of these meetings over the course of the last year, I have had many CEOs come up to me and saying, "It is going to be a bitter pill for my board to understand this. But my business rational is to put capital in and do business because by the time I don't do business and I look at options A, B and C. If it requires hiring personnel, change over costs, the fee structure of that other entity, when you add it all up, it still speaks to putting capital in today's institution." And the question is, in those cases can you get over the emotional loss that has been endured on a business sense to move forward. I can't sway how the realities of that discussion is going to happen with the board. But I do say let those corporates present this business case, show it all in, and at least with that full information then take it up to a vote and say which direction do we want to go.

You will be surprised when you really go through. And emotionally I see it. I lost money to corporate – that is my first gut reaction. But when you go through and you add it all up, again corporates provide the single point of contact for many services. If you had to go to multiple points or you have to do different business lines, make sure you understand the full all-in costs. And then let's see where we move forward.

Chairman Debbie Matz: And I would like to just add that that is one of the reasons, that is a big reason why we changed the corporate rule to prevent these situations from happening again and to provide confidence in the system. So those corporates that are viable and that do go forward will be operating in a very safe and sound environment. But Scott is quite right; it is a very emotional response. And frequently, just like Scott said, people will say publicly we are definitely not doing it, no way, but then they come up to me afterward and say, "Well, we really think this is probably the way to go but we have to convince our board of it." And so that is why I feel like we need to get as much information into the hands of the boards so that they really understand what has happened and what the response is so that they can make an educated decision.

Unidentified Female Participant: Going back to being able to educate the boards, there are a couple of slides in here I would love to be able to use. Are these going to be available to us?

Scott Hunt: I don't see why not.

Chairman Debbie Matz: Sure. We can make them available. In fact, I think they are on our website already.

Unidentified Female Participant: Are they?

Scott Hunt: If you go to – there is a corporates system resolution page off of our main website and not only – these slides come off of the board presentation we did and the webinar we did. So those slides. The slide shows that are actually up on the website are actually more extensive but it includes all of these slides. So, that is a great place for that sort of stuff.  There are all kinds of other things on there – FAQs and Fact Sheets.  In fact Matt and his team did a great job of building all that out and putting it online and actually launching it on the 24th after the board took all those actions.

Larry Fazio:  And that DVD 4 we call it, we will also now carry all of this presentation forward to attach on to what the information we have already sent out.

When will the DVD, I think someone said it is posted now online to get to it.  We will actually manufacture the DVDs shortly.

Unidentified Male Participant:  It is available online.  We are actually working to get that pressed right now and get sent out.  So it will probably be a couple of weeks before that gets sent out.  We are trying to see if we can fit it all on one DVD or just send one, we just had a presentation.

Unidentified Male Participant:  Scott, when the Southwest Corporate people came to my credit union and sat down with me and said, "Would you recapitalize this?"  I said that will be a cost benefit decision done at the time that that comes up.  Exactly what you have said was the right thing to do.  And I have been told often and regularly that I am not the sharpest tack in the box, but there is an analogy that I would like to say – we have a member that has been a member for a long time that had a car loan with us and his son came and got a car loan with us.  And his son defaulted on the loan.  And our member came back and said, that was my son, you are not going to lose money on somebody in my family while it is my responsibility.  So he took the deficit and put it on his car loan.  And I feel like that is the same way we are with the corporates.  They are a member of our family.  We used them, we got the benefit out of them.  They did good for us and supported us for many, many years.  Now that something has gone wrong, it is our responsibility.  You are doing a very good job, I believe, in mitigating the costs and the problems that come from that, but it is still our responsibility no matter what happens.  So, yes, I don't like it.  I'm not happy with it.  I wish it hadn't happened.  But, it is still a credit union family and it is our responsibility to take care of it.

Unidentified Female Participant: I have a question about you were saying a while ago that during this bridge corporation it looks like will be operating in the red. So from a business standpoint, if we are going to recapitalize, like if all of us said we are just going to recapitalize because we were all Southwest Corporate and we are going to make a new one. We are staring out in the red already. Or if someone else takes us over – are they taking what was in the red debt with them and then they will be under 4%, will be back in the same place?

Scott Hunt: Just like what we are essentially doing from the conservatorship to the bridge, you essentially start with the new balance sheet. It is a little more complicated because there are some intangible accounting issues you have to deal with. There technically could be some equity. I don't want to get into the nuances of accounting here, but it is the same process that if we from a bridge P&A'd into say a new charter, a clean charter, it will essentially be a zero capital basis. You will not be expected to absorb all of the losses incurred over that period of time. Now of course operating in the red speaks to we want to expeditiously move forward. As stewards of the fund, we don't want to operate 24 months in the red or at least we have to do the best to minimize it; that is why the leadership teams are trying to get out there and I think you probably already heard from Southwest – I know for certain in this room. I know Member's United and WesCorp are doing it, too. Get the members together quicker, sooner, preserve the franchise and come out with a plan so that we can begin that transition phase as soon as possible. Not 24 months from now. And you would not be expected, as I said, that new capital to come in from essentially zero. But it would go from zero to 4 to be fair.

Unidentified Female Participant: Are you as NCUA absorbing the red loss and then we are going to have to pay for it through the stabilization fund?

Scott Hunt: The individual, right, the estates themselves and the bridge corporates, if there is negative, if there are losses there, let's just put it that way, that is borne through the stabilization fund. The corporate stabilization fund which is paid through by assessments, by all federally insured credit unions, yes. And that was factored – and as Larry said, we do have models for projecting in losses on these bridge institutions and those figures he gave you; that range of now going forward 7.3 to 9 [billion], thereabouts.

Unidentified Male Participant:  (Inaudible – microphone inaccessible)… I think some of the smaller credit unions shared in the losses more so than what the larger ones did. Will there be a little bit more equity in terms of the small and large credit unions if there is a recapitalization?

Scott Hunt:  That has to be decided; there is no hard answer on that.  The teams will work with their members and they will decide what is fair and equitable for all.  I really can't elaborate until we see those plans.

Well for that, I hope you found this helpful, at least on the corporate stabilization efforts we have done so far and I think at this time if there are any other, if you would, say free-for-all questions on anything involving agency business we would be glad to answer your questions.  That, or there are really good cookies out there and everyone wants to get back.

Unidentified Male Participant:  One question.  We had indicated or my understanding was Southwest Corporate was profitable aside from the investment part.  So in these bridge scenarios, why are we operating at a loss?

Scott Hunt:  You will because we are actually restricting the investment authorities.  It is sort of like you are operating profitable – the losses  you can't take independent.  It is part of the business.  The coupons though are higher.  So absent the credit losses that came through OTTI, the coupons are higher, brought in higher interest income if you will provided operations in the black.

When we go to bridge, we are going to operate in an agency treasury marketplace. Typically an corporate-owned CD is paid Agency plus.  Well if you are only bringing in Agency rates, you don't have the way to pay Agency plus rates, even if you just keep them at Agency and knowing that most corporates nee some amount of interest income spread to generate a profit, we have taken it away again for the greater good of trying to keep a very nimble balance sheet that when we are ready to transition we can do it very quickly.

Unidentified Male Participant:  You had mentioned that the fee assessments would be determined in November.  You don't have any idea yet?

Chairman Debbie Matz:  You know I get asked that question all the time.  Actually, no. The staff is working on it but as Scott alluded to every month at our open board meeting, our CFO provides what the current losses are and what the estimated losses are.  And so it wouldn't be – first of all we can't tell you an exact amount because whatever we told you, you would have to book and also we don't know.  But we will provide a range.  Last year we predicted that the range would be between 15 and 40 basis points combined and it wound up being 26.  So, I'm not saying that we will come exactly in the middle like we do this year, but we will give you a good range to work with and it will be at our November board meeting.  Any other questions?  On anything?

Unidentified Female Participant:  Maybe you covered this, but how much is US Central going to be handled?  Is it going to be a bridge?

Chairman Debbie Matz:  It is already a bridge.

Scott Hunt:  It became a bridge October 1.  And just like we are working with members of Southwest, we are looking at something to establish the services provided by US Central to its retail corporates in an ongoing fashion.

Unidentified Female Participant:  The US Central members are corporates but –

Scott Hunt:  Generally they're corporate credit unions.  There are a few other Canadian credit unions and some other members but largely just the other corporates.

Unidentified Female Participant: Okay, but some of those, at least Southwest Corporate board ceases to exist, so who takes those, assuming some of those were on US Central's board, how does that –

Scott Hunt: Well there is no board at US Central. Once we conserved them, we removed the entire board.

Unidentified Female Participant: Okay, sorry. So, Southwest Corporate being a member of US Central, will Southwest Corporate have a voice in how that works with US Central at all?

Scott Hunt: It certainly will be invited to those discussions. To be fair, different corporates have different reliance on US Central services. Southwest being one that is less reliant. And so while it was there and it did business with Southwest, it may have had a lesser degree than some of the other corporates, sometimes we refer to as pass-throughs. Pass-throughs are essentially resellers of many of USC's services directly to their Natural Person Credit Unions. And that will be a probably higher issue of interest for those corporates where USC Services go.

Unidentified Female Participant: One final question – out of the 22 remaining corporates, how many of those meet the 4% capital requirement? Do we know, approximately?

Scott Hunt: I believe there was 13 of them that would be at 4% or below. So doing the math, if you leave about 9, that is a flexible figure. Some are on that cusp depending on how the assets rise and fall, but it is roughly that.

Unidentified Female Participant: Thank you.

Chairman Debbie Matz: Are there any other questions? If not, I want to thank you. This is actually helpful for us and I hope it has been helpful for you because it gives us an idea of what the messaging, whether the messaging has been effective and where we need to fine tune it and what information you need and how we might do things differently going forward.

So we really appreciate you taking the time to be here.  Please let us know if there is any additional information that you need, if we can help you message to your boards in particular.  And again, thank you all very much.